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SA business confidence falters, while markets hope US and Iran can strike a deal

THE WEEK IN PERSPECTIVE

Lisette Ijssel de Schepper

With Brent crude oil trading below $100/barrel through the week, markets are no longer asking whether negotiations are taking place; they are increasingly asking whether a deal can be finalised. That is a materially different question from where we were even two weeks ago. Reports suggest that a framework agreement is now under active consideration by both Washington and Tehran, while recent diplomatic activity points to a growing desire on both sides to avoid a prolonged conflict. However, until the framework is formally approved and the Strait of Hormuz returns to something resembling normal operations, energy markets are likely to retain a meaningful geopolitical risk premium. Indeed, this week saw the most attacks by both sides since the ceasefire began in early April. The caution was evident in market pricing this week. While optimism around a deal helped prevent a further escalation in oil prices, Brent still ended the week close to $95/barrel, confirming that investors are not yet prepared to fully price out geopolitical risk.

A notable development this week was President Donald Trump's increasingly public frustration with Israeli Prime Minister Benjamin Netanyahu. Trump appears concerned that Israel's continued military operations risk undermining efforts to secure a broader agreement with Iran and reduce pressure on global energy markets. The disagreement highlights the complex regional dynamics still at play and serves as a reminder that a deal is not yet guaranteed, despite growing optimism. While markets are increasingly focused on the prospect of a US-Iran agreement, developments elsewhere in the region remain far less encouraging as Hezbollah rejected a US-backed ceasefire proposal with Israel.

Just as markets have begun celebrating signs that the US and Iran may be close to a deal, a new source of uncertainty has emerged. The Trump administration is reportedly considering tariffs of up to 12.5% on imports from a broad range of trading partners (including SA) once temporary measures expire later this year. The proposed tariffs are ostensibly aimed at combating forced labour in global supply chains. Public hearings are scheduled for 7 July before a final decision is made. However, investors are likely to interpret them as a renewed escalation in US protectionism, with potentially important implications for global trade, inflation and interest rates. SA's direct exposure remains limited, but renewed protectionism would add to the headwinds facing exporters and commodity producers.

That said, recent developments in Washington also serve as a reminder that Trump does not always get his way. This week, a bipartisan majority in the House of Representatives voted to limit his ability to expand military operations in Iran without congressional approval, highlighting growing political constraints on the administration even as it pursues an increasingly interventionist trade agenda.

The implications for SA are becoming increasingly complex. While the rand was broadly unchanged against the US dollar this week, the ALSI fell by 2.3% and government bond yields moved higher, suggesting that investors remain cautious despite improving sentiment around the Middle East. Lower oil prices would ease pressure on inflation, consumers and the SARB. However, a renewed escalation in global trade tensions could offset some of those benefits by weighing on exports, growth and investor sentiment. The latest **RMB/BER Business Confidence Index** suggests businesses have become more cautious as geopolitical tensions and higher fuel costs filter through the economy. Yet the survey comments point more to hesitation than outright panic. As we discussed at the **BER Conference** earlier this week, the recovery has clearly lost momentum, but whether it has been derailed remains an open question. Much will depend not only on developments in the Strait of Hormuz and on policy decisions coming out of Washington, but also on whether South Africa continues to improve what it can control. After all, while businesses cannot influence oil prices or global trade policy, they can respond to better infrastructure, more capable local government and a more predictable policy environment.

Weekly Key Indicators		
	Close	w-o-w
R/$	R16.28	0.0%
R/€	R18.93	-0.2%
R/£	R21.88	0.1%
$/€	$1.16	-0.1%
Brent crude oil	$94.92	1.2%
Gold	$4 471	0.0%
Platinum	$1 897	-0.4%
JSE ALSI	112 453	-2.3%
10y gov. bond	8.55	10bps
FRA (1x4)*	7.03	-4bps

*Forward rate agreement

WEEK AHEAD: GDP DATA TO SHOW WHERE SA STOOD BEFORE THE OIL SHOCK

On Tuesday, Stats SA will publish GDP data for the first quarter of 2026. Our published forecast is for growth of 0.3% q-o-q, although our latest high-frequency tracker suggests some downside risk to this estimate. Much will depend on the performance of the agricultural sector and any revisions to historical data. Importantly, the release covers a period before the escalation of tensions in the Middle East led to the subsequent fuel-price shock. As such, it should provide a useful benchmark for assessing the economic fallout from recent geopolitical developments. Additional local releases, including the FNB/BER Building Confidence Index, mining production and manufacturing output, will provide further insight into underlying economic momentum heading into the second quarter.

Globally, inflation will remain firmly in focus. In the US, consumer inflation data on Wednesday will be closely watched after headline CPI accelerated to 3.8% y-o-y in April. Markets are increasingly sensitive to signs that higher energy prices are feeding into broader price pressures. The outcome of today's nonfarm payrolls report will also shape expectations for the Fed. A strong print would reinforce the view that US interest rates may need to remain higher for longer; a high inflation print next week could do the same.

On Thursday, the European Central Bank (ECB) is expected to decide whether recent inflation developments warrant a 25-bps rate hike, following growing concern about the inflationary impact of the Middle East conflict. The outcome will provide an important indication of how major central banks intend to respond to the latest oil-price shock, with the general expectation that the ECB will tighten.

Date	Event	Latest
Tuesday (9 Jun)	SA: GDP Growth Rate (Q1)	0.8% y-o-y; 0.4% q-o-q
Wednesday (10 Jun)	SA: FNB/BER Building Confidence Index (Q2)	42
Wednesday (10 Jun)	CN: Consumer Inflation Rate, PPI (May)	1.2% y-o-y; 2.8% y-o-y
Wednesday (10 Jun)	US: Consumer Inflation Rate (May)	3.8% y-o-y; 0.6% m-o-m
Thursday (11 Jun)	EZ: ECB interest Rate decision	2.15%
Thursday (11 Jun)	SA: Mining Production (Apr)	2.5% y-o-y; -5.1% m-o-m
Thursday (11 Jun)	SA: Manufacturing Production (Apr)	0.9% y-o-y; 0.8% m-o-m
Thursday (11Jun)	US: PPI (May)	6% y-o-y; 1.4% m-o-m
Friday (12 Jun)	UK: GDP (Apr)	0.3% m-o-m
Friday (12 Jun)	US: Michigan Consumer sentiment (Prel, Jun)	44.8

SA POLITICAL UPDATE

Natasha Marrian

RAMAPHOSA REMAINS CALM IN THE EYE OF THE STORM

President Cyril Ramaphosa held his ground this week, declaring that he will not be distracted by political theatrics amid an unfolding impeachment process, anti-immigration protests and mounting pressure on the ANC ahead of November's local government election.

The impeachment process in Parliament is proceeding, with the election of Rise Mzansi's Makashule Gana as its chairman, supported by both the ANC and the DA, on Friday. Ramaphosa has launched a legal challenge to the review panel's report, which serves as the basis for the impeachment process. The case is scheduled to be heard from September 2 to 4, just two months before the local government election on November 4.

Ramaphosa has indicated that he would allow the impeachment process to unfold – but warned that he will interdict the committee should it begin substantive hearings, based on the panel report which found prima facie evidence that he has a case to answer over the $580 000 stolen from a couch at his Phala Phala private game farm in 2020.

While the impeachment committee has been set up, it could take months before it begins gathering evidence. Evidence leaders must be appointed and rules established before the committee proceeds with its work. While there is no precedent for impeaching a sitting president, Parliament's impeachment process against former Public Protector Busisiwe Mkhwebane suggests the process could take many months before substantive hearings begin.

This week, Ramaphosa focused on the rapidly spreading protests against immigrants - now unfolding in at least four provinces: Gauteng, KwaZulu-Natal, Mpumalanga and the Western Cape. March and March, the well-funded civil society group at the heart of the protests, has given undocumented foreigners until June 30 to leave SA. This week's Cabinet meeting, as well as a high-level National Joint Operational and Intelligence Structure meeting, focused on how the government plans to deal with the rising threat. The government believes the anti-immigrant sentiment among ordinary South Africans is being weaponised to potentially destabilise the country, while the potential involvement of former president Jacob Zuma's networks cannot be discounted.

Intelligence structures are actively monitoring individuals and groups suspected of mobilising communities toward unlawful conduct and threats against foreign nationals and businesses. Furthermore, Ramaphosa announced plans to dispatch envoys, both domestically and internationally, to explore ways to address the drivers of migration and learn from the experiences of other countries.

Ramaphosa faced fierce criticism in Parliament as the House debated his budget vote, with the Phala Phala scandal at the heart of the critique of his Presidency. The EFF and ATM left the House in protest, while GNU partner, the Freedom Front Plus, urged Ramaphosa to "come clean" on the source of the foreign currency found at his farm.

In response, however, a calm Ramaphosa stood firm, declaring that he will not be distracted or deterred by "political theatrics". He dug in on the reforms initiated during his tenure aimed at unravelling the destructive impact of years of state capture and corruption, saying they are beginning to yield results and doubled down on the commitment made during the state of the nation address to turn his attention to dealing with crime and the illicit economy.

DOMESTIC DATA

Kelebogile Mabitsi

SECOND QUARTER BUSINESS SENTIMENT REVERSES EARLIER GAINS

The **RMB/BER Business Confidence Index (BCI)** fell to 39 in 26Q2, one point below its long-term average. The sharp decline erased much of the improvement seen at the start of the year as geopolitical tensions weighed on sentiment. Confidence fell across four of the five sub-sectors, led by new vehicle dealers. Despite their sharp pullback, this group remained the most optimistic among respondents. Meanwhile, sentiment edged up by a single point among manufacturers, as customers front-loaded to curb rising costs amid the escalating US-Iran conflict. This war has dampened current and expected conditions as companies battle with elevated input costs. Beyond global spillovers, local consumer demand is likely to contract, given a more restrictive monetary policy environment following the recent 25-basis-point hike. In the near term, business confidence may remain under pressure from rising input costs, weaker consumer demand and squeezed profit margins.

GEOPOLITICAL SHOCK BEGINS TO FILTER THROUGH TO BUSINESS ACTIVITY

The **Absa PMI** eased from 52.6 in April to 50.8 in May, driven by a slowdown in manufacturing business activity as customers reversed April's front-loaded purchases, leading to a decline in new orders. Beyond weaker demand, business conditions were constrained by supply-chain delays and higher transport costs and other surcharges. The inventories index rose further as manufacturers themselves frontloaded stock purchases to buffer against further price hikes. The six-month outlook offered a silver lining, with the expected business conditions index rising from 47.4 to 52.9, suggesting that manufacturers expect conditions to look better by year's end.

Similarly, the S&P Global PMI fell from 51.6 in April to 49.6 in May, marking its first contraction in five months. This turnaround was due to declines in output and new orders, underpinned by weaker demand and rising input costs that were passed through to customers. On the upside, firms increased employment at the fastest pace since 2022. Furthermore, respondents expect a rebound in business activity in the next 12 months.

STRONG DOMESTIC DEMAND LIFTS NEW VEHICLE SALES DURING FUEL PRICE HIKES

New vehicle sales maintained their momentum, rising from 47.9K units in April to 51.1K in May. Annually, sales rose by 12.8% in May, only marginally down from April's 13% increase. Importantly, sales are up in the first two months of Q2 compared with Q1, suggesting the sector is on track to record its eighth consecutive quarter of growth. In contrast, export sales – while volatile in recent months - continued to decline, falling by 4.8% y-o-y in May. Export volumes fell sharply for buses and light commercial vehicles; naamsa attributed the latter's reduced volumes to the phased rollout of new-model production by a key exporter. The weaker vehicle sales confidence print suggests that sales may come under pressure as consumers face tighter financial conditions.

INTERNATIONAL DATA

Katrien Smuts

EUROZONE CPI INFLATION TICKS UP AS EXPECTED

In line with expectations, the flash CPI inflation print for the Eurozone ticked up to 3.2% in May, from 3% the previous month. This is the highest inflation print in almost three years and well above the ECB's 2% target. It is no surprise that the elevated energy inflation continued in May, reaching 10.9% y-o-y, up slightly from 10.8% in April. More worryingly, core and service inflation also ticked up from April. Core inflation reached 2.5% (2.2% in April) and services inflation 3.5% (3% in April), suggesting broadening price pressures beyond energy. Consumer and business inflation expectations, meanwhile, also increased. All these factors will likely increase the probability of a rate hike at the ECB's next meeting, scheduled for 10-11 June.

Eurozone's retail sales fell by 0.4% m-o-m in April, more than expected, and after an upwardly revised 0.8% m-o-m increase in March. Increases in food sales (0.9% m-o-m) were more than offset by a decline of 0.9% m-o-m in non-food product sales (excluding automotive fuel). In addition, automotive fuel sales also declined by 2.7% m-o-m. The overall weakness in non-food sales may reflect broader demand softness at the start of the second quarter. In annual terms, retail sales recorded a 1% y-o-y increase.

CHINA'S SERVICES PMI ACCELERATES, WHEREAS MANUFACTURING PMI DECLINES

In China, the RatingDog Services PMI ticked up to 54.4 in May from 53.8 in April. This indicates an acceleration in the expansion of the services sector, a positive sign for a robust domestic economy. The acceleration was broad-based: total activity and new business expanded at the fastest pace in three months. Meanwhile, employment rose for the first time since January, reflecting improving expectations for business activity over the next year.

On the manufacturing side, both the RatingDog and the NBS's Manufacturing PMI declined in May. RatingDog China Manufacturing PMI eased to 51.8 from 52.2 in April, while NBS's (larger firms) dipped to 50 from 50.3 in April. This reflects ongoing headwinds in manufacturing due to rising input costs. In both surveys, input costs are still elevated, at least they moderated slightly relative to the previous month (60.5 vs 63.7).

The results from the PMIs paint a mixed picture of Chinese growth in the second quarter of 2026, following a very robust 5% growth rate in Q1.

US SERVICES PMIS DIVERGE A BIT

The ISM and S&P Global PMIs for the US tell a slightly different story in the latest May data. In both surveys, manufacturing PMIs increased further into expansionary territory, to 54 and 55.1, respectively. This indicates ongoing strength in the US manufacturing sector, buoyed by stockpiling to mitigate against price rises and supply delays.

On the services side, however, the results between the two surveys diverged. The ISM Services PMI increased to 54.5 (from 52.7 in April), its 23rd consecutive month in expansionary territory, supported by a surge in new orders. In contrast, the S&P Global's Services PMI declined to 50.5 (from 51 in April), and though it is still above the neutral 50, respondents list rising prices and weak demand as limiting growth. In both manufacturing and services, cost pressures are mounting due to rising fuel, energy and supplier prices.

FORECAST UPDATE

We have not made any changes to our baseline forecast this week. However, developments over the past few days have slightly reduced the probability of our more adverse scenarios. With oil prices retreating from recent highs and signs emerging that the US and Iran may be closer to a deal, the risk of a prolonged energy shock appears somewhat lower than it did a week ago. That said, the situation remains fluid and energy markets are likely to retain a meaningful geopolitical risk premium until a formal agreement is reached and shipping through the Strait of Hormuz normalises more fully.

The SARB's latest decision and communication continue to reinforce our view that the domestic monetary policy cycle has shifted into a more cautious, higher-for-longer phase. The Bank appears increasingly concerned not only about fuel-price pressures, but also the risk of second-round effects through services inflation, inflation expectations and wage-setting behaviour. Recent business confidence data also suggest that higher fuel costs and elevated uncertainty are beginning to weigh on activity, even if the recovery has not (yet) been derailed.

The balance of risks nevertheless remains skewed to the upside for inflation and interest rates. While Middle East tensions may be easing, new risks have emerged through the prospect of higher US tariffs and a potentially more protectionist global trade environment. As such, a further 25-bps rate hike at the July MPC meeting cannot be ruled out, particularly if inflation expectations begin to drift higher, the rand weakens materially or oil prices reverse recent gains.

	Actual		Forecast		Next release/meeting	
	2025	2026Q1	2026Q2	2026		
Brent crude oil ($, spot, avg.)	68.83	73.83	98.3	82.8	n/a	
ZAR/USD (avg.)	17.88	16.36	16.44	16.46	n/a	
Prime interest rate (%, end of period)	11.25	10.25	10.50	10.50	23-Jul-2026	
Headline CPI (y-o-y % change)	3.2	3.3	4.9	4.2	17-Jun-26	May
FNAB inflation (y-o-y % change)	4.1	3.9	3.4	3.8	17-Jun-26	May
Headline PPI (y-o-y % change)	1.5	2.0	7.8	5.4	25-Jun-26	May
	2025	2025Q4	2026Q1	2026		
Real GDP growth (seasonally adjusted)					9-Jun-26	2026Q1
(y-o-y % change)	1.1			1.3		
(q-o-q % change)		0.4	0.3			

Source: BER, Stats SA, Refinitiv, SARB

Note: The table is updated ad hoc and is indicative of our latest view.

FNAB stands for food & non-alcoholic beverages.

*Premium Insights Clients can access more complete summaries of our forecast (updated each quarter) **here**.*

CONTACT US

Editor: Lisette IJssel de Schepper
Tel: +27 (0)21 808 9777
Email: lisette@sun.ac.za

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